

MEMORANDUM

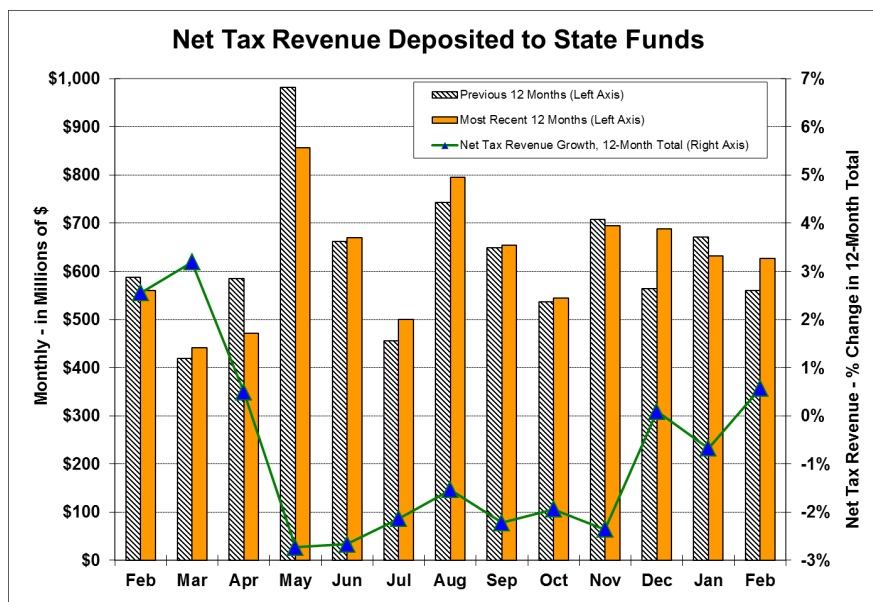
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: March 26, 2015

Twelve-Month Total Net Tax Receipts Through February 28, 2015

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending February 2015 with comparisons to the previous 12 months. February 2014 to February 2015 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

With the increased experienced in February, growth in the 12-month total State tax revenue turned positive at 0.6%. While a few of the smaller taxes have shown positive growth over the past year, only sales/use tax has posted solid dollar growth since February 2014. However, individual income tax should begin to post positive year-over-year comparisons in March or April as individual income tax returns are filed for tax year 2014.

Month of February 2015

February net tax receipts totaled \$626.8 million, an increase of \$66.6 million (11.9%) compared to February 2014. February receipts benefited from a tax deposit date issue at the end of January. January 2015 net receipts for several categories of State taxes were negatively impacted by January 31 falling on a weekend this year. While months ending on a weekend do not always cause significant revenue comparison issues, January 31 is a significant tax deposit date so revenue that would normally be deposited on that date necessarily arrives in February. Fuel tax and sales/use tax were significantly impacted by the issue this year.

Year-over-Year Comparison — Net Tax Revenue

During the 12-month period ending February 2015, net revenue from all taxes deposited to State funds totaled \$7.574 billion, an increase of \$42.6 million (0.6%), compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$71.8 million, - 2.1%) – Due to an increase in the Iowa Earned Income Tax Credit, the new Iowa Taxpayer Trust Fund Tax Credit, and the FY 2013 one-time boost to revenue that was the result of federal tax changes enacted January 1, 2013, the annual rate of income tax revenue growth declined significantly during the first half of calendar year 2014. While monthly positive individual income tax revenue growth returned in July 2014, annual growth will likely remain negative until all tax returns are processed (mid-May 2015).
- Sales/Use Tax (positive \$129.3 million, 5.3%) – Sales/use tax growth continues to be strong, including the State General Fund portion and the sales tax (fee for new registration) on automobiles that is deposited to the Road Use Tax Fund.
- Bank Tax (negative \$3.3 million, - 9.5%) – The use of income tax credits explains the weakness in bank (franchise) tax receipts. Department of Revenue analysis indicates that tax credits taken on franchise tax returns increased from \$5.4 million for FY 2013 to \$12.7 million in FY 2014, with a similar amount projected to be redeemed in FY 2015.
- Fuel Tax (positive \$9.5 million, 2.2%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 2.8% and taxable diesel sales increased 3.7%. With the January data, the annual total for all taxed gasoline/ethanol/diesel fuel gallons sold in Iowa (2.378 billion) now exceeds the previous annual peak (12 months ending July 2011).
- Gambling Tax (negative \$0.1 million, - 0.0%) – According to Racing and Gaming Commission statistics, 10 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending February 2015. The combined AGR change for the 18 facilities was negative 0.6% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.411 billion. The annual AGR total has declined over the past two years and is 4.0% below the December 2012 peak.
- Real Estate Transfer Tax (no change)
- Cigarette and Tobacco Tax (negative \$12.9 million, - 5.6%) – Although cigarette and tobacco tax revenue growth was positive for the month of February, the annual growth rate (negative 5.6%) has not been this low since May 2010.

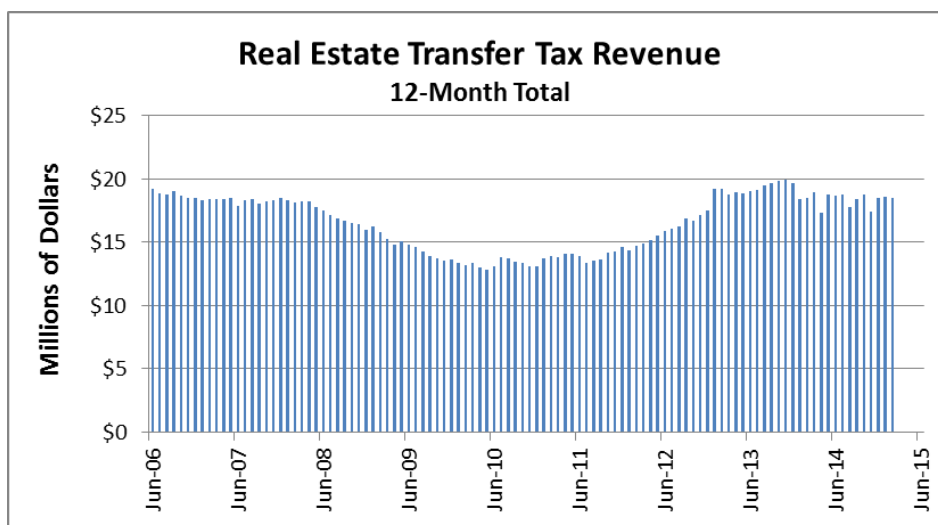
Tax Spotlight — Real Estate Transfer Tax

The transfer of real estate is taxed under the authority of [Iowa Code chapter 428A](#). The tax was first effective July 1965 and the current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the tenth day of each month for tax collected during the preceding month.

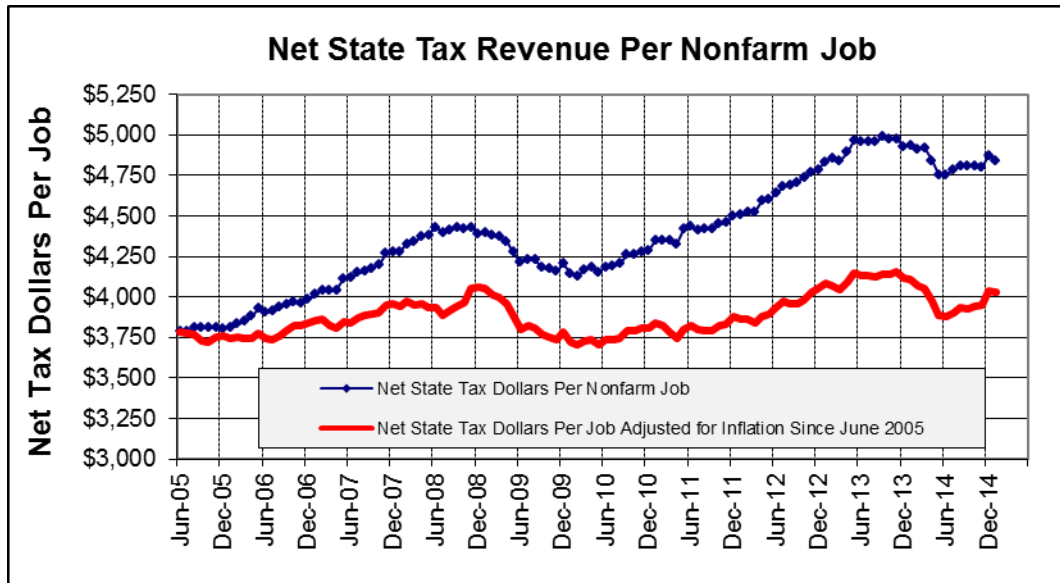
The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 65.0% during FY 2015 is deposited to the State General Fund, 30.0% to the Housing Trust Fund, and 5.0% to the Shelter Assistance Fund. The real estate transfer tax dollars reflected in this report do not include the portion retained by counties.

The Shelter Assistance Fund is administered by the Iowa Finance Authority (see [Iowa Code section 16.41](#)). Money in the Fund may be used for rehabilitation, expansion, or operating costs of group home shelters for the homeless and domestic violence shelters. Of the moneys in the Fund, at least \$546,000 must be spent annually on homeless shelter projects. The Housing Trust Fund is administered by the Iowa Finance Authority ([Iowa Code section 16.181](#)). Money in the Fund is to be used for the development and preservation of affordable housing for low-income residents within the State and for the Iowa Mortgage Help initiative.

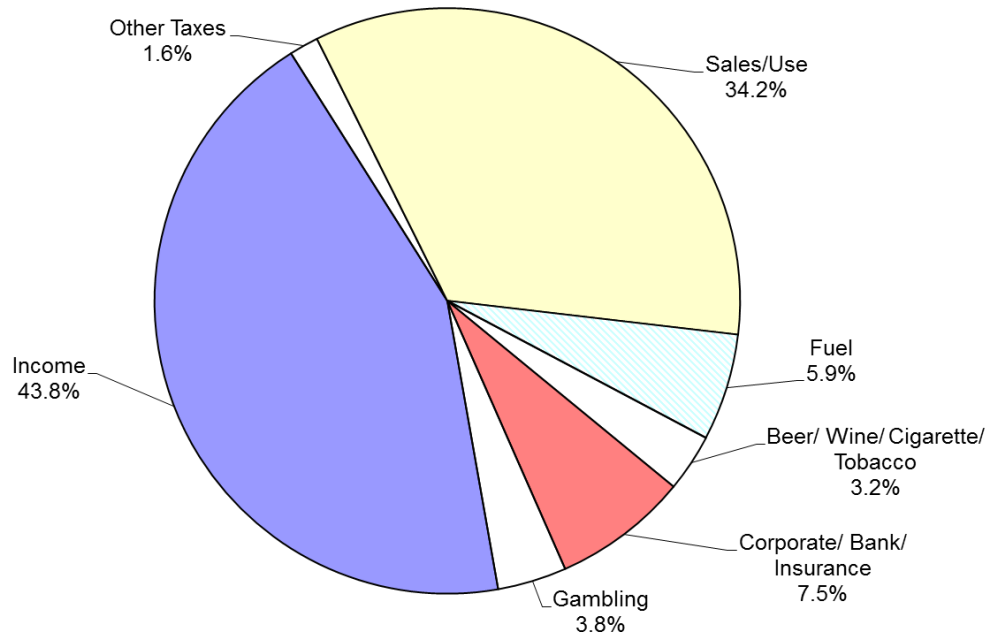


Tax Revenue and Employment

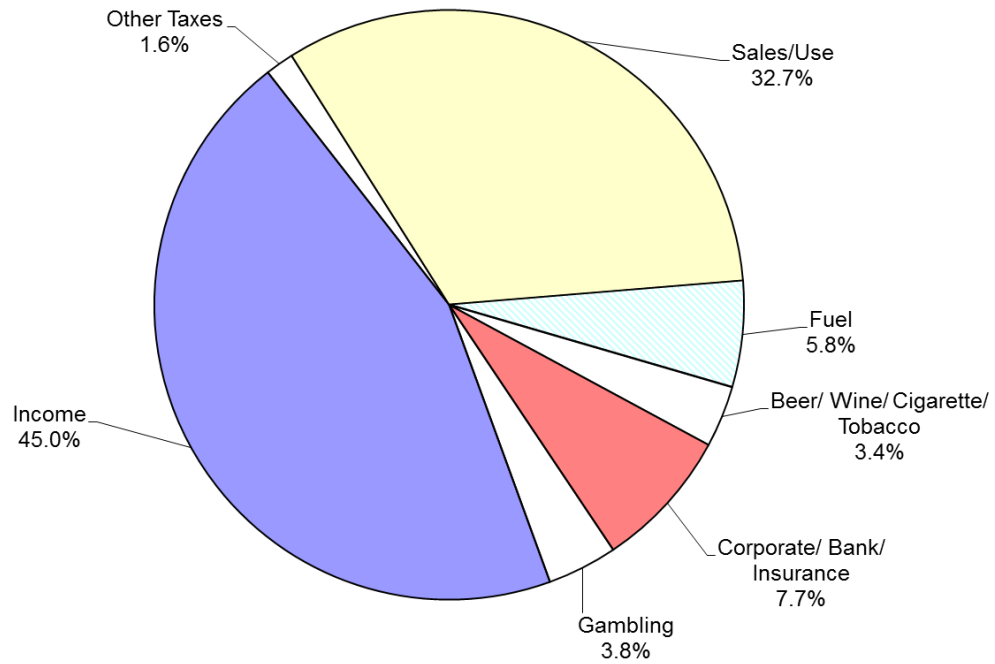
The average reading for Iowa nonfarm employment over the 12 months ending January 2015 is 1,550,200 and net State tax receipts over the same 12 months totaled \$7.507 billion, or \$4,842 per nonfarm job. This is \$1,057 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$245 since June 2005 and the remainder of the \$1,057 increase (\$812) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending February 2015
Net Revenue = \$7.574 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending February 2014
Net Revenue = \$7.531 Billion
Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

| Net Tax by Tax Type | Previous 12-Month Period Total | Most Recent 12-Month Period Total | 12-Month \$ Change | 12-Month % Change | Month of February 2014 | Month of February 2015 | February \$ Change | February % Change |
|---------------------------------|---|---|-----------------------|----------------------|------------------------------|------------------------------|-----------------------|----------------------|
| Banking | \$ 34.9 | \$ 31.6 | \$ - 3.3 | -9.5% | \$ 0.3 | \$ 0.2 | \$ - 0.1 | -33.3% |
| Beer & Wine | 21.9 | 22.4 | 0.5 | 2.3% | 1.5 | 1.8 | 0.3 | 20.0% |
| Cigarette & Tobacco | 231.9 | 219.0 | - 12.9 | -5.6% | 14.9 | 15.8 | 0.9 | 6.0% |
| Corporate Income | 438.4 | 425.4 | - 13.0 | -3.0% | 11.8 | 7.5 | - 4.3 | -36.4% |
| Fuel | 437.9 | 447.4 | 9.5 | 2.2% | 32.6 | 36.4 | 3.8 | 11.7% |
| Gambling | 289.2 | 289.1 | - 0.1 | 0.0% | 23.3 | 24.2 | 0.9 | 3.9% |
| Individual Income | 3,390.1 | 3,318.3 | - 71.8 | -2.1% | 162.3 | 202.1 | 39.8 | 24.5% |
| Inheritance | 86.4 | 89.2 | 2.8 | 3.2% | 5.1 | 6.2 | 1.1 | 21.6% |
| Insurance | 108.5 | 108.3 | - 0.2 | -0.2% | 3.8 | 3.1 | - 0.7 | -18.4% |
| Other Taxes | 13.1 | 14.9 | 1.8 | 13.7% | - 0.1 | 0.6 | 0.7 | -- |
| Real Estate Transfer | 18.5 | 18.5 | 0.0 | 0.0% | 1.3 | 1.2 | - 0.1 | -7.7% |
| Sales/Use | 2,460.3 | 2,589.6 | 129.3 | 5.3% | 303.4 | 327.7 | 24.3 | 8.0% |
| Total Net Taxes | \$ 7,531.1 | \$ 7,573.7 | \$ 42.6 | 0.6% | \$ 560.2 | \$ 626.8 | \$ 66.6 | 11.9% |
| Gross Tax & Refunds | | | | | | | | |
| Gross Tax | \$ 8,940.3 | \$ 9,034.5 | \$ 94.2 | 1.1% | \$ 817.5 | \$ 896.7 | \$ 79.2 | 9.7% |
| Tax Refunds | \$ - 1,409.3 | \$ - 1,460.9 | \$ - 51.6 | 3.7% | \$ - 257.5 | \$ - 270.0 | \$ - 12.5 | 4.9% |
| Net Tax Receipts by Fund | | | | | | | | |
| State General Fund (GF) | \$ 6,294.1 | \$ 6,236.4 | \$ - 57.7 | -0.9% | \$ 460.3 | \$ 520.6 | \$ 60.3 | 13.1% |
| Road Use Tax Fund | \$ 775.1 | \$ 798.4 | \$ 23.3 | 3.0% | \$ 60.2 | \$ 64.6 | \$ 4.4 | 7.3% |
| Non-GF Gambling | \$ 287.1 | \$ 287.5 | \$ 0.4 | 0.1% | \$ 23.2 | \$ 24.0 | \$ 0.8 | 3.4% |
| Other State Funds | \$ 174.7 | \$ 251.4 | \$ 76.7 | 43.9% | \$ 16.4 | \$ 17.5 | \$ 1.1 | 6.7% |
| Local Option Taxes * | \$ 908.1 | \$ 902.1 | \$ - 6.0 | -0.7% | \$ 72.7 | \$ 58.5 | \$ - 14.2 | -19.5% |

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. Since FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund and the remainder is deposited to the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of the State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of State sales/use tax revenue is deposited to a new Sales Tax Increment Fund and used for local flood mitigation projects.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database: The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.